

Credit Opinion

29 August 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

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Jiangsu Shuanghu Investment Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Jiangsu Shuanghu Investment Holding Group Co Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Jiangsu Shuanghu Investment Holding Group Co., Ltd. ("SHIH" or the "Company") reflects (1) the Jianhu County Government's strong capacity to provide support; and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Jianhu County Government's capacity to provide support reflects Jianhu County's status as one of the CCID Top 100 Counties in China and its relatively good economic position among counties/districts in Yancheng City. However, its fiscal metrics are moderated and its debt profile is relatively weak.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) status as the largest local infrastructure investment and financing company ("LIIFC") in Jianhu County; (2) key role in resettlement housing, infrastructure construction and public services in Jianhu County; and (3) good track record of receiving government support.

However, the rating is constrained by the Company's (1) certain exposure to non-standard financing; and (2) medium level of contingent risk.

The stable outlook on SHIH's rating reflects our expectation that the Jianhu County Government's capacity to provide support will remain stable, and the Company will maintain its important position in Jianhu County over the next 12-18 months.

Rating Drivers

- Key role in resettlement housing, infrastructure construction and public services in Jianhu County
- Increasing exposure to commercial activities
- Relatively high debt leverage with relatively high short-term debt burden
- Certain exposure to non-standard financing
- Good track record of receiving government support
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jianhu County Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as increased regional importance, enhanced debt management, and improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Jianhu County Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance, increased exposure to risky commercial activities or material increase in contingent risks.

Key Indicators

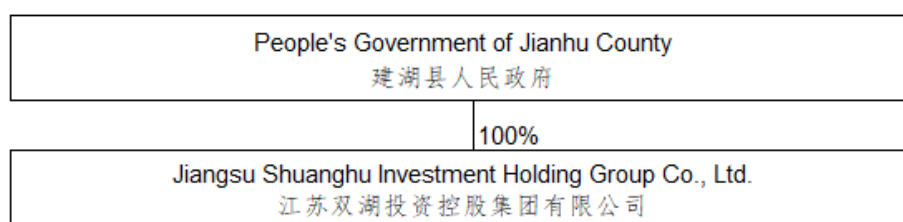
	2021FY	2022FY	2023FY
Total Assets (RMB billion)	68.2	73.5	76.9
Total Equity (RMB billion)	32.3	33.5	34.4
Total Revenue (RMB billion)	2.9	2.6	2.6
Total Debt/Total Capital (%)	48.1	49.7	50.9

All ratios and figures are calculated using CCXAP's adjustments.

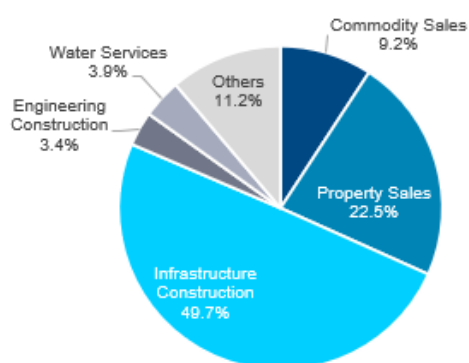
Source: Company data, CCXAP research

Corporate Profile

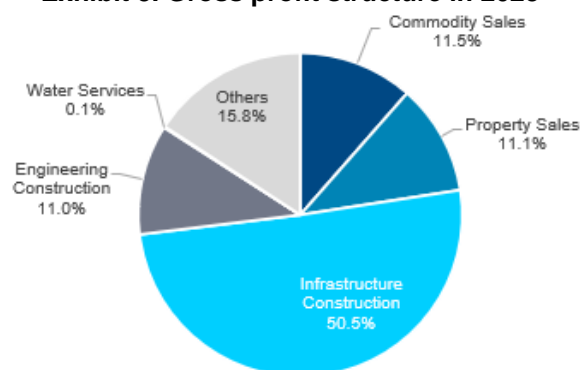
Founded in 2017, SHIH consolidated several local state-owned enterprises in 2021, making it the largest local infrastructure investment and financing company ("LIIFC") by total assets in Jianhu County. The Company is responsible for the investment and operation of resettlement housing and infrastructure construction in Jianhu County. SHIH has a diversified business scope including infrastructure construction, engineering construction, water service, property sales, and commodity sales. As of 31 December 2023, Jianhu County Government ultimately controlled SHIH and directly held 100% shares of the Company.

Exhibit 1. Shareholding chart as of 31 December 2023

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023**Rating Considerations****Government's Capacity to Provide Support**

We believe that the Jianhu County Government has a strong capacity to provide support, given its status as one of the CCID Top 100 Counties in China and its economic and fiscal strength has improved over years of development. However, its fiscal metrics are moderate and debt profile is relatively weak.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2023, its total gross regional product ("GRP") amounted to RMB12.8 trillion, growing 5.8% year-over-year ("YoY"). The GRP per capita was RMB150,487 for the same period, which was the highest one among all provinces in China.

Yancheng City is a prefecture-level city in Jiangsu Province, with a good economic foundation. Based on its advantageous traditional industries including autos, textiles, steel, and chemical industries, Yancheng City is undergoing an economic transition and is developing emerging industries such as new energy vehicles and core components, new energy, new generation information technology, new materials, big health and digital economy and ocean economy industries, which help support sustainable economic growth in the long run. In 2023, there were 750 newly signed industrial projects with an investment exceeding RMB100 million settled in Yancheng, and 450 projects with an investment exceeding RMB100 million in completion including JA Solar 10GW Photovoltaic Batteries and SVOLT Energy Lithium-ion Power Battery projects which have been put into operation. In 2023, Yancheng City recorded a GRP of RMB740.4 billion with a 5.9% YoY growth rate, ranking 9th among 13 municipals in Jiangsu Province. The general budgetary revenue increased annually on the back of steady economic growth and optimized upgrading of the industrial structure. In 2023, as the influence of the large-scale value-added tax credit refund weakened, the Yancheng Municipal Government achieved a general

budgetary and tax revenue of RMB48.3 billion and RMB34.1 billion, increasing by 6.5% and 14.8% YoY, respectively. However, its fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) remained moderate, with a 3-year average ratio of 41.2%. As of the end of 2023, the local government's outstanding debt increased to RMB165.5 billion, accounting for about 22.4% of GRP.

Exhibit 4. Key economic and fiscal indicators of Yancheng City

	2021FY	2022FY	2023FY
GRP (RMB billion)	661.7	708.0	740.4
GRP Growth (%)	7.7	4.6	5.9
General Budgetary Revenue (RMB billion)	45.1	45.3	48.3
General Budgetary Expenditure (RMB billion)	105.3	111.8	122.8
Local Government Debt (RMB billion)	147.3	153.5	165.5

Source: Yancheng Municipal Government, CCXAP research

Jianhu County is a county-level city under the jurisdiction of Yancheng City. Jianhu County ranked 72th among the Top 100 counties in China released by CCID Consulting County Economic Research Center. The economic and fiscal volume of Jianhu County is at the middle level among counties/districts in Yancheng City, but GRP per capita is at the front tier. Jianhu County has established three pillar industries: high-end equipment manufacture, new energy and the electronic information industry, with their economic contributions increasing yearly. From 2021 to 2023, Jianhu County's economic strength improved steadily with GRP increasing from RMB63.3 billion to RMB73.4 billion. Benefited from the strong performance of favored industries, Jianhu County reported that the tax revenue increased to RMB3.1 billion from RMB2.6 billion in 2022. Taxes represent the primary source of the general budgetary revenue in Jianhu County, accounting for an average of 73.9% of the general budgetary revenue over the past three years. However, Jianhu County Government's fiscal balance ratio is relatively low, averaging 33.4% over the past three years, reflecting a high reliance on fiscal support from higher-tier governments and proceeds from land sales to balance its fiscal budget. Its outstanding government debt increased to RMB19.5 billion at end-2023, accounting for around 26.6% of GRP and around 135.2% of total fiscal income.

Exhibit 5. Key economic and fiscal indicators of Jianhu County

	2021FY	2022FY	2023FY
GRP (RMB billion)	63.3	71.2	73.3
GRP Growth (%)	8.8	5.0	6.8
General Budgetary Revenue (RMB billion)	3.5	3.8	4.2
General Budgetary Expenditure (RMB billion)	10.5	11.5	12.0
Local Government Debt (RMB billion)	16.8	17.8	19.5

Source: Jianhu County Government, CCXAP research

Government's Willingness to Provide Support

Clear and strong position in Jianhu County

There are five major LIIFCs in Jianhu County under the control of the Jianhu County Government. Among them, SHIH is a key entity with the largest asset scale in investment and operation of infrastructure construction in Jianhu County. As of end-2023, the Company's total assets amounted to around RMB76.9 billion. In addition, the Company has the largest outstanding bonds among the LIIFCs in Jianhu County. A default by SHIH could have a significant impact on the local government's reputation and local financing environment. The Company is mainly responsible for resettlement housing, infrastructure construction, water supply and sewage treatment

in the urban area of Jianhu County. The other LIIFCs' main business scopes are the rural area of Jianhu County, Jianhu Economic Development Zone, Jianhu High-tech Industrial Development Zone and Jiulongkou Tourist Resort, respectively. Each LIIFC in Jianhu County has a clear position under the government's planning.

Key role in resettlement housing, infrastructure construction and public services in Jianhu County

SHIH is one of the core LIIFCs in Jianhu County which is responsible for important infrastructure construction tasks in Jianhu County, including shantytown projects, resettlement housing and road construction, as well as providing public services including water supply, sewage treatment and bus operation.

The Company's resettlement housing projects are primarily structured in two models, self-development and agent construction model. Under the self-development model, the Company raises funds for construction and gives priority to the sale of resettlement housing to locally relocated households in accordance with the relocation policy of Jianhu County. Government subsidies are provided if the sales price is below the construction cost and some housing is allowed to be sold at market prices when resettle is finished. As of 31 March 2024, the affordable housing projects under the self-development mode had been basically completed and there were no planned projects. Sales of the company's affordable housing stock are progressing slowly and are susceptible to downturns in the property market. Under the agent construction model, the resettlement housing will be transferred and settled on prices set by the local government that are slightly higher than the costs. As of end-2023, the Company had four resettlement housing projects under agent construction with a total investment of around RMB3.1 billion and an uninvested amount of around RMB727 million and no resettlement projects under planning. As infrastructure improves in the main urban area of Jianhu County, the demand for resettlement housing in urban areas is decreasing. After the consolidation of local state-owned enterprises, SHIH undertakes development projects in other areas such as Shanggang Town according to the planning of the local government.

SHIH is engaged in infrastructure construction within Jianhu County mainly through agent construction model. Under the agent construction model, the Company signs construction agreements with the related parties and the related parties will pay the total cost plus a few percentage markups after examining the projects. As of the end of 2023, the Company had 8 entrusted construction projects under construction with a total investment of around RMB3.3 billion and an uninvested amount of around RMB660 million. The Company is also engaged in engineering construction business such as road construction, pipeline network construction and water installation works within Jianhu County.

SHIH provides water supply and sewage treatment in Jianhu County with regional monopoly advantages. It is the sole water supplier within the main urban area of Jianhu County. As of the end of 2023, the Company operated 2 water plants and 6 sewage treatment plants with a daily water supply capacity of 175 thousand tons and a daily sewage treatment capacity of 86.5 thousand tons, respectively. The water supply business has a slight deficit due to its public welfare characteristic and the government provides appropriate subsidies. As of the end of 2023, the Company had two water plants under construction, with a total investment of around RMB384 million and an uninvested amount of around RMB204 million, providing an additional daily water supply capacity of 110 thousand tons. Moreover, the Company had a sewage treatment plant expansion project that will operate in 2024, which will increase its sewage treatment capacity by 30 thousand tons.

Increasing exposure to commercial activities

SHIH is also engaged in some commercial activities such as commodity sales, commercial property development, leasing business and security services. Based on our assessment of its assets, its exposure to

commercial activities is relatively small but increasing such as investment in new energy, property development and commercial buildings.

The Company's commodity sales segment consists primarily of medical consumables, steel, coal, hot pressed iron and chemical products. The Company mainly adopts a demand-on-purchase model and makes the confirmation on volume and prices with downstream customers before procurement. The income is mainly derived from trading medical consumables with Shuanghu Chinese Hospital and the neighboring pharmacies, although the scale is not significant. In 2023, the revenue of the Company's commodity sales reached RMB241.9 million, a slight increase from RMB232.6 million in 2022. However, the profitability of SHIH's commodity sales remained relatively weak.

SHIH gains property leasing income from renting office buildings, storefronts, and water pipeline assets, all of which are acquired from asset injections, build and purchases. This sector is at relatively low business risks as most of them were leased to the local government or government-related parties but its contribution to revenue remains low. In 2023, the income and gross profit margin increased as a self-developed property, the financial services centre, completed and started generating income. In addition, as of the end of 2023, the Company has a commercial property development project under construction, with a total investment of RMB290 million and an uninvested amount of RMB190 million.

The Company is also engaged in the distributed photovoltaic ("PV") power project through self-construction. Under the national "double carbon" goal, Jianhu County is one of the pilot counties promoting the distributed photovoltaics industry in Jiangsu Province. SHIH plans to invest RMB2.0 billion in distributed photovoltaic power projects with a capacity of 400 MW. As of 31 March 2024, the PV power stations with an installed capacity of 100MW had operated. Although this business may bring supplementary income to SHIH, it would also bring operation risk and capital expenditure pressure to the Company.

Good track record of receiving government support

SHIH and its subsidiaries have a good track record of receiving support from the local government in the form of asset injections, equity transfers, debt swap funds and government subsidies. In 2021, the local government transferred its holding of several important state-owned enterprises into the Company, making it the largest LIIFC in Jianhu County. From 2021 to 2023, the Company received government subsidies with a total value of around RMB738 million. In addition, the Company received around RMB150.0 million in capital injection and RMB792.9 million in debt repayment funds from the local government in 2023. We expect that the Company will maintain its strategically important position in infrastructure construction in Jianhu County, and the local government will continue to support its development.

Relatively high debt leverage with relatively high short-term debt burden

SHIH's debt burden and debt leverage are relatively high mainly due to ongoing financing for construction projects and large investment in affordable housing in the early stage. From 2022 to 2023, SHIH's total debt grew to RMB35.6 billion from RMB33.1 billion, which is mainly financed for ongoing project investment. The Company's debt leverage, measured by the total capitalization ratio, reached 50.9% in 2023, having risen gradually over the past three years. In addition, the Company has a relatively high short-term debt burden. It reported short-term debts of RMB14.8 billion as of the end of 2023, accounting for 41.5% of its debts. At the same time, the cash to short-term debt ratio was 0.3x, indicating a relatively high refinancing need. The Company is expected to continue relying on external financing for debt repayment and construction projects. We expect that the Company's debt leverage will maintain at a relatively high level in the next 12-18 months.

Besides, SHIH's asset liquidity was moderate. As of 31 December 2023, the Company pledged a number of assets for loans, including cash, inventories, and investment properties, with a total restricted amount of RMB12.3 billion, accounting for 16.0% of total assets. On top of that, the Company's receivables were relatively high, accounting for around 29.9% of total assets. The targets of account receivables are mainly the Finance Bureau of Jianhu County, government units and local state-owned enterprises, with long recovery periods and low liquidity.

Good access to bank borrowing and bond issuance, but some expose to non-standard financing

SHIH has access to funding channels including bank loans, the onshore and offshore debt capital markets and financial companies. Bank loans and bonds accounted for the majority of its debts. The Company maintains long-term and close relationships with different large domestic banks. As of 31 December 2023, the Company had total bank facilities of RMB21.0 billion, with the available portion being RMB4.1 billion. Jianhu County City Construction Investment Group Co., Ltd. ("JHCI"), an important subsidiary of SHIH, has issued different financial products in the domestic market. In 2023, JHCI issued 10 tranches of onshore bonds, raising RMB3.6 billion. Furthermore, the Company also has proficiency in accessing offshore financing. In 2024, the Company issued 2 tranches of offshore bonds, raising JPY2.9 billion and RMB550 million respectively. However, the Company had certain exposure to non-standard financing. As of end-2023, non-standard financing borrowing accounted for around 26% of total debts with relatively high costs, including financial leases and trust loans.

Medium level of contingent risk

SHIH's credit profile is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 31 December 2023, the Company had external guarantees of RMB13.3 billion, accounting for around 38.6% of its net assets. The guarantees are mostly provided to other state-owned enterprises but no guarantees have counter-guarantee measures in place. In case a credit event occurs, the Company may face large-scale cross-effects risks, which could negatively impact its credit quality. In addition, the Company's guarantee for the private-owned enterprise, Jianhu County Longzhu Island Ecological Agricultural Development Co., Ltd., amounted to RMB30 million, which is considered a small scale. Nevertheless, we believe that the contingent risk of the external guarantee is moderately controllable, considering the position of some of these state-owned enterprises and may receive timely support from the local government.

ESG Considerations

SHIH faces environmental risks because it has undertaken infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

SHIH bears social risks as it implements public policy initiatives by building public infrastructure in Jianhu County. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

SHIH's governance considerations are also material as the Company is subject to oversight by the Jianhu County Government and must meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Appendix

Exhibit 6. Peer Comparison

	Jiangsu Shuanghu Investment Holding Group Co., Ltd. ("SHIH")	Jianhu County Tourism Development Co., Ltd. ("JHTD")
Long-Term Credit Rating	BBB _g -	BBB _g -
Shareholder	Jianhu County Government (100%)	Jianhu County Government (100%)
Positioning	The largest LIIFC by total assets in Jianhu County mainly undertaking resettlement housing and infrastructure construction and providing public services	The sole state-owned enterprise in Jianhu County mainly undertaking county-wide tourism investment, development, and operation
Total Assets (RMB billion)	76.9	11.2
Total Equity (RMB billion)	34.4	5.7
Total Revenue (RMB billion)	2.6	0.3

All ratios and figures are calculated using CCXAP's adjustments based on SHIH's 2023FY financial data and JHTD's 2023Q3 financial data.

Source: Company information, CCXAP research

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